Vermont Legislative Joint Fiscal Office

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SUMMARY ISSUE BRIEF: Use of State Reserve Funds

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There has been considerable interest in the use of Vermont's reserve funds. The Joint Fiscal Office has three memorandums to serve as background on the state's reserve funds on the Joint Fiscal Website under "issue briefs" at www.leg.state.vt.us/jfo/.

- Vermont has two types of reserve funds:
  1. Three stabilization reserves in the General, Transportation and Education Fund are primarily designed to reduce unanticipated revenue shortfalls at the end of the year; and secondarily to provide resources for cash flow needs; and
  2. Four "rainy day" type reserves which, as of the end of FY 2011 will be empty.

Year End Reserve Balances			(millions)	
	Type	**FY09**	**FY10 proj**	**FY11 proj**
General Fund				
GF Stabilization Reserve	*stabilization*	60.0	57.3	54.5*
GF Surplus Reserve	*rainy day*	14.8	4.9	0.0
Human Services Caseload	*rainy day*	16.3	0.0	0.0
Revenue Shortfall reserve	*rainy day*	0.0	0.0	0.0
		91.1	62.2	54.5
Transportation Fund				
TF Stabilization Reserve	*stabilization*	11.3	10.3	10.5*
TF Surplus Reserve	*rainy day*	0.0	0.0	0.0
Education Fund				
EF Stabilization Reserve	*stabilization*	31.1	22.3	24.0

** Statutory maximum- 5% of previous year total appropriations*

- Use of the remaining stabilization reserve funds raises three concerns:
  1. Stabilization funds "reduce the effects of annual variations in state revenues upon the general fund budget." As such they are critical at the close of the fiscal year if revenues do not perform as expected. This occurred at the end of FY 2002, when the general fund stabilization reserve met a shortfall and carried us through to FY 2004.
  2. The stabilization funds serve a secondary purpose of reducing the need for short term borrowing which concerns bond rating agencies. While cash flows are generally healthy throughout the year, there are occasions where the cash position dips. In FY 2010 it's projected to drop to $15m-$25m in May. Our rating impacts the state's cost of borrowing money and perceptions of state fiscal management which is important in competing for public & private investments.
  3. Finally, stabilization funds are one time resources – once spent they need to be refilled. Where FY 2011's shortfall will be succeeded by FY 2012's $100 + million budget gap shortfall, utilization of one time funds creates a greater problem in the following year.